

Jettstar



Resource Services Inc.

1997 Annual Report

Corporate Profile

Jettstar Resource Services Inc. was incorporated as 703384 Alberta Ltd. on July 18, 1996 pursuant to the provisions of the ABCA. The name of 703384 Alberta Ltd. was changed to Jett Investment Corporation pursuant to a Certificate of Amendment dated April 25, 1997 and to Jettstar pursuant to a Certificate of Amendment dated January 12, 1998.

The registered office of Jettstar is 1600, 407 - 2nd Street S.W., Calgary, Alberta T2P 2Y3 and principal business office of Jettstar is 400, 708 - 11th Avenue S.W., Calgary, Alberta T2R 0E4.

Jettstar is a reporting issuer under applicable securities legislation in the provinces of Alberta and Saskatchewan. Jettstar's common shares are listed on the ASE under the trading symbol "JTT".

Corporate Structure

Jettstar currently has two wholly owned subsidiaries, being Red Hawk and 757996. Red Hawk was incorporated under the *Business Corporations Act* (Saskatchewan) on May 21, 1985 as Nagel Well Servicing Ltd. Pursuant to Certificate of Amendment dated July 29, 1986, the name of Nagel Well Servicing Ltd. was changed to Red Hawk Well Servicing Ltd. The head office of Red Hawk is located at 400, 708 - 11th Avenue S.W., Calgary, Alberta T2R 0E4, the field office is located at Highway 18 West, Oxbow, Saskatchewan S0C 2B0 and the registered office of Red Hawk is 600, 105 - 21st Street East, Saskatoon, Saskatchewan, S7K 0B3. Red Hawk has been in operation as an oil well service company with operations primarily in southeast Saskatchewan since 1985. All of the shares of Red Hawk were acquired by Jettstar on February 25, 1998.

757996 was incorporated under the ABCA on October 6, 1997. The registered office of 757996 is 1600, 407 - 2nd Street S.W., Calgary, Alberta, T2P 2Y3 and principal business office is located at 400, 708 - 11th Avenue S.W., Calgary, Alberta T2R 0E4. On November 13, 1997, 757996 acquired six oil well service rigs from Gold West Resources Ltd. All of the shares of 757996 were acquired by Jettstar on March 11, 1998. The following chart illustrates the corporate structure of the Corporation:

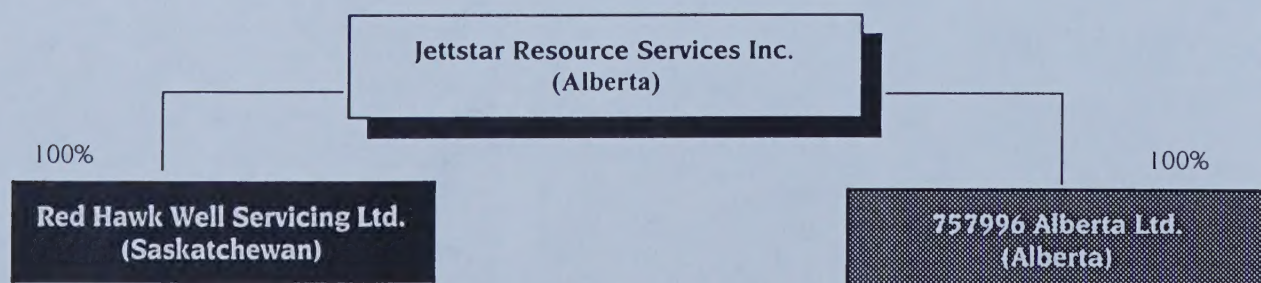


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Annual and Special Meeting

The Annual and Special Meeting of Shareholders will be held at 10:00 AM (Calgary Time) on June 25, 1998 in the Rideau Room, The Westin Hotel 320 - 4th Avenue S.W., Calgary, Alberta.

President's Message to the Shareholders

Jettstar Resource Services Inc. became a new player in the Canadian oil & gas service sector on October 9th, 1997 when it began trading on the Alberta Stock Exchange (ASE) under the symbol "JTT".

Accomplishments

Since that date, Jettstar has completed the acquisition of all the issued and outstanding shares of Red Hawk Well Servicing Ltd. Red Hawk is now a 100% fully owned subsidiary of Jettstar Resource Services Inc., operating eight fully-equipped mobile well service rigs and related equipment in southeast Saskatchewan. The consideration paid by Jettstar for the Red Hawk shares consisted of \$5,000,000 cash plus 2,000,000 common shares at a deemed price of \$0.20 per common share for a total consideration of \$5,400,000.

To finance the acquisition of Red Hawk, Jettstar closed a private placement of 3,803,375 special warrants for gross proceeds of \$3,042,700 and a private placement of \$1,750,000 of special notes. The balance of the acquisition was raised in a private placement of 2,500,000 units comprised of one common share and one purchase warrant at a price of \$0.20 per unit that closed in December 1997.

The acquisition of Red Hawk constituted Jettstar's major transaction pursuant to Alberta Securities Commission (ASC) and ASE regulations and graduated Jettstar from a junior capital pool company to a full member company of the Alberta Stock Exchange.

Jettstar also closed on the acquisition of all the outstanding shares of 757996 Alberta Ltd. 757996 was the owner of a service rig fleet of six service rigs previously operated in the United States. The rigs have been moved to Canada and are now part of the Red Hawk fleet. One of the rigs has been refurbished to meet Canadian regulatory and corporate standards and is now working. The other rigs will be refurbished over the next several months, depending on prevailing market conditions. If all rigs are refurbished, the addition of these rigs would bring Red Hawk's fleet to 13 rigs.

In order to reflect the new business of the company, Jett Investment Corporation has changed its name to Jettstar Resource Services Inc. Jettstar will continue to trade under the symbol: JTT. The Preliminary Prospectus for the conversion of the Special Warrants and Special Notes was filed with

the ASC and the Saskatchewan Securities Commission (SSC) on April 29, 1998 and is waiting on final approval. Jettstar has also received a financing commitment from the National Bank of Canada for up to \$4,000,000. The commitment included a \$1,000,000 demand operating line of credit and a \$3,000,000 line of credit for the purpose of additional service rigs. An additional "Evergreen Facility" of \$2,000,000 is available for acquisition purposes, pending approval by the National Bank of Canada.

Outlook

The Corporation is optimistic that it will continue to enjoy a high utilization rate of its service rigs throughout the remainder of 1998 despite indications of a slow-down in activity in the drilling sector. This is due, to a significant degree, to the ongoing well maintenance services that are provided by the Corporation on existing wells. Although management believes that it is important to continue to expand the size of the Corporation's rig fleet, the potential slow-down in the drilling sector has caused management to re-evaluate its short term plan to expand the size of its rig fleet through the incursion of additional debt.

Management is therefore looking at various alternatives to expand its rig fleet that will not involve an increase in debt obligations but will result in a larger, competitive fleet and to operate in new core areas. The company will continue to enhance and upgrade its current fleet to maintain the high degree of service it provides its customers.

On behalf of Jettstar, I would like to thank our employees for their dedication and help in making Jettstar a success and we look forward to a profitable and progressive future.



A.D. (Tony) Convey
President

Management Discussion and Report to Shareholders

Jettstar has a relatively short history, having been incorporated in July, 1996. On October 9, 1997, Jettstar commenced trading on the ASE as a Junior Capital Pool Company. On September 30, 1997, Jettstar entered into a lockup agreement with Terry Gunderman and Shelley Gunderman, the sole shareholders of Red Hawk, to purchase all of the outstanding shares of the Saskatchewan based oil well service company. On February 25, 1998, Jettstar completed the acquisition of Red Hawk and has been operating as an oil well service company through Red Hawk since that date. The acquisition of Red Hawk constituted the Major Transaction of Jettstar pursuant to the Policies set out by the ASE. On March 11, 1998, Jettstar acquired all of the shares of 757996, resulting in the addition of six rigs to the Corporation's fleet.

Historically, Red Hawk has been primarily involved in the provision of well servicing operations to producers in southeast Saskatchewan through a fleet of light double and medium double truck-mounted service rigs. Since 1995, the Corporation has enjoyed a high level of rig utilization primarily due to significant oil drilling activity in southeastern Saskatchewan. Well completion services currently account for approximately fifty (50%) percent of the Corporation's well servicing activity, with well maintenance and workovers accounting for the balance of the Corporation's business. The primary factors affecting the Corporation's results of operations have been and will continue to be the demand for drilling of new oil wells which require the completion and maintenance services provided by the Corporation. Oil well drilling activity is cyclical in nature and is effected, to a large degree, by prevailing and anticipated future oil and gas prices. Since the beginning of 1998, there has been a decline in oil prices which have resulted in announcements that a number of existing producers may be reducing their future exploration drilling programs. Despite these announcements, management believes that the relatively limited supply of service rigs in Western Canada in general and southeastern Saskatchewan in particular should result in a continued high utilization rate of the Corporation's service rigs throughout 1998 and into 1999.

Corporate Information

Officers & Directors

Jeffrey J. Scott
Chairman & Director

A.D. Convey
President & Director

Edward W. Tapuska
Corporate Secretary

William E. Grafham
Director

Stanwill G. P. Grad
Director

Arthur E. Dumont
Executive Vice President
Corporate Development

Head Office
Suite 400, 708 - 11th Avenue S.W.
Calgary, Alberta T2R 0E4

Telephone: (403) 264-5794

Facsimile: (403) 264-7455

Banker

National Bank of Canada
407 Eighth Avenue S.W.
Calgary, Alberta T2P 1E5

Auditors

KPMG
Chartered Accountants
Calgary, Alberta

Registrar & Transfer Agent

Montreal Trust Company
Calgary, Alberta

Legal Counsel

Ogilvie & Company
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange - "JTT"

JETTSTAR RESOURCE SERVICES INC.

(Formerly Jett Investment Corporation)
Statement of Changes in Financial Position

For the period from date of incorporation on July 18, 1997 to December 31, 1997

Cash provided by (used in):

Operating:

Net loss for the period	\$ (165,789)
Change in non-cash working capital related to operating activities	89,212
	<u>(76,577)</u>

Financing:

Issuance of shares for cash, net	762,511
Change in non-cash working capital related to financing activities	<u>(335,000)</u>
	427,511

Investing:

Deposits and deferred costs	(149,199)
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Increase in cash and cash, end of period	<u>\$ 201,735</u>
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See accompanying notes to financial statements.